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OMB Says Medicare Drug Law Could Cost Still More

White House Estimates Show a \$42 Billion Increase Over 10 Years, but Administration Officials Dispute That

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President Bush promised Congress that his Medicare prescription drug benefit would cost no more than \$400 billion over 10 years, but once the legislation was enacted, federal actuaries boosted the estimate to \$534 billion. Now, Bush administration projections indicate that the cost could be considerably higher.

According to internal White House budget office estimates of the long-term cost of Medicare, spending related to the new drug benefit could increase by \$42 billion over the coming decade.

The revised figure appears in a chart prepared during this summer's "mid-session review" by the Office of Management and Budget and Medicare actuaries. The document provides a detailed breakdown of an extra \$176 billion in Medicare spending projected for the next 10 years. The chart, provided to The Washington Post late last week, identifies \$42 billion of that increase "as related to MMA," the initials of the Medicare Modernization Act, the new prescription drug law.

Several budget analysts said the chart indicates that the price tag of the president's new drug program could total as much as \$576 billion over 10 years.

"Using their own numbers, it costs over 10 years \$42 billion more, and so, therefore, it's \$576 billion," said Richard Kogan, senior fellow at the Center on Budget and Policy Priorities.

But administration officials over the weekend strongly disputed that the chart indicates that the drug program's projected cost has been increased by \$42 billion.

Mark McClellan, administrator of the Centers for Medicare and Medicaid Services (CMS), said that Medicare's actuaries have not reestimated the cost of the drug law and that the new figures are primarily

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adjustments to the "baseline" or projected spending levels for a Medicare program likely to cost more than \$4 trillion over the next decade. He said there is no way to anticipate at this point how the new prescription drug benefit will interact with other Medicare programs. He said it would be a mistake to simply add the \$42 billion to \$534 billion to come up with a new projected cost, noting that "related to" is not the same as "attributable."

Kogan called McClellan's explanation a "distinction without a difference."

Although once considered a political asset for Bush in his bid for reelection, the Medicare drug package has become a source of controversy, with a growing number of senior citizens telling pollsters that they are disappointed in the outcome.

"This shows once again that it's high time for the Bush administration to level with the American people about its misguided Medicare law," Sen. Edward M. Kennedy (D-Mass.) said after reviewing the internal projections.

The latest survey by the nonpartisan Kaiser Family Foundation found that nearly half of all Medicare beneficiaries have a favorable impression of the law and that less than a third expect to benefit from it.

Over the past two weeks, Bush has been buffeted by unfavorable developments in the Medicare program, including the disclosure of a record premium increase next year and revelations that the government concealed other cost projections. Also, the Government Accountability Office ruled that the administration should have withheld the salary of former Medicare chief Thomas A. Scully because he had wrongly prevented a federal employee from providing higher cost estimates on the prescription drug bill to Congress.

"They hide the truth about what's happening in Medicare," Democratic presidential nominee John F. Kerry said last week. "It's time we have a president who tells the American people the truth."

Joel Kaplan, deputy OMB director, said the agency publishes five-year projections only because it does "not believe anything beyond five years is a reliable or certain estimate." The 10-year projections were given privately to some members of Congress. Neither Kaplan nor McClellan challenged the actual figures, just the interpretation of them.

Kaplan said the detailed breakdown was an attempt to be "as transparent as possible," while McClellan called it an effort to "divide the components of the [total] Medicare increase into different provisions."

Early last week, Democrats excoriated the administration for not revealing the massive increase in Medicare costs projected for 2006. Government actuaries estimate that the typical 65-year-old would see Medicare costs jump from 20 percent of the average Social Security benefit in 2005 to 37 percent in 2006.

The administration responded by noting that, beginning in 2006, seniors will receive a valuable prescription drug benefit.

Some experts say a big question is what happens after 2006, when seniors -- and taxpayers in general -- face Medicare increases that threaten to consume more than half the average Social Security check and would necessitate tax increases on younger workers.

"We're in deep trouble," said Robert Hayes, president of the Medicare Rights Center, as he examined a Medicare chart belatedly released by the administration.

In 2015, for example, 44 percent of the typical 65-year-old's benefit check will be devoted to Medicare premiums, deductibles and co-payments, according to the actuaries' projections. By 2020, it will be half. The typical 85-year-old will lose 50 percent of his or her Social Security check to Medicare in 2015 and 58 percent in 2020.

"That does not count some of the most substantial expenses people have for health care, such as long-term care, vision, dental and preventive services not covered by Medicare," Hayes added. "The debacle facing consumers is even greater than this chart would suggest."

For the past several years, the long-term premium projections have been published in the Medicare Trustees' report. Administration officials said the chart was replaced with a graph this year to show not only the new fees, but also the new drug benefit.

"The line of co-payments goes up, but also going up rapidly is the value of the supplemental benefits," McClellan said.

Even the written report understates the financial impact of the drug law. The narrative asserts that in 2010 the typical retiree will spend 13 percent of his or her Social Security benefit on Medicare premiums and 23 percent on "cost-sharing." But the total out-of-pocket Medicare cost in the newly released chart totals 39.2 percent.

McClellan said the projected spike in costs is largely the result of an expectation that seniors will be taking more medications in the future and that many will be newer, more expensive drugs.

Independent analysts said the Bush administration pushed through policy changes that did little to control health care spending and, in some instances, added to the cost of Medicare.

The Medicare drug law, which Bush recently said upholds a "moral responsibility to honor our senior citizens with good health care," gives managed-care companies an extra \$25 billion in Medicare payments between 2004 and 2009. McClellan and Bush have said that the money will result in broader health coverage for seniors who enroll in "Medicare Advantage" plans.

Yet CMS data published in the federal register show that \$1.4 billion -- or less than 6 percent of the increase -- will go to benefits.

"That's part of the increased costs, but seniors are getting very little in return," said Ron Pollack, executive director and vice president of the liberal consumer group Families USA.

Researcher Lucy Shackelford contributed to this report.

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